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RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC
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C O N F I D E N T I A L SECTION 01 OF 04 MANAGUA 000885

SIPDIS

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TREASURY FOR SARA SENICH

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SUBJECT: NICARAGUAN DONORS GROW DISENCHANTED WITH ORTEGA

REF: A. MANAGUA 761

[1](#)B. MANAGUA 2479

[1](#)C. MANAGUA 2255

[1](#)D. MANAGUA 2203

Classified By: Ambassador Paul Trivelli for reasons 1.4 b&d.

[1](#)1. (C) Summary: Over the last six months, bilateral foreign donors in Nicaragua have grown increasingly disillusioned with the Ortega administration. This disappointment has coincided with an unrelated shift in European assistance agencies' priorities away from Central America towards Africa and other poorer regions. So far, Sweden, the United Kingdom, and Germany have withdrawn assistance in some form from Nicaragua. The Supreme Electoral Council's decision to disqualify two opposition parties (Ref A) resulted in an attitudinal shift within the broader donor community. As a result, all donors to Nicaragua, including multilaterals, issued a strong joint public statement, expressing concern with the closing of Nicaragua's democratic space. The GON's reaction was swift and virulent, with President Ortega and both Vice Foreign Ministers publicly insulting the donors. Assistance agencies have stuck by their message and begun to systematically re-examine their programs and priorities. With donor assistance accounting for almost 25% of the Nicaraguan budget, the GON seems to have reconsidered its position and have scaled back the rhetoric. We do not believe, however, Ortega is quite ready to forgive the donors' outbursts. End Summary.

Donors Are Re-Examining Their Programs...

[1](#)2. (SBU) Over the last six months, bilateral foreign donors in Nicaragua have grown increasingly disillusioned with the Ortega administration. The lack of dialogue with the GON and its strong focus on assistance from "non-traditional" donors, such as Venezuela and Iran, have left many feeling side-lined from Nicaragua's development process (Refs B, C). The recent presentation of a draft National Development Plan which is in large part a political diatribe against the U.S., the EU, free markets and western assistance, contained none of the plans, projects, and targets the donors need to align their programs with Nicaraguan priorities.

[1](#)3. (C) This disappointment has coincided with an unrelated

shift in European assistance agencies' priorities away from Central America towards Africa and other poorer regions. Sweden was the first donor to announce its departure (Ref D) in 2007. It initially cut its direct budget support and subsequently announced the closing of its Embassy by 2009. The next was Germany, which decided not to provide direct budget support in 2008, but has kept the rest of its assistance in place. At the end of 2007, the United Kingdom (DFID) announced that it will be pulling out of direct budget support, closing its DFID offices in 2010, and shifting its assistance for the next four years to NGOs. (Note: The Budget Support Group is composed of the Inter-American Development Bank, the World Bank, the European Union, the U.K., Norway, the Netherlands, Germany, Switzerland, and Finland. BSG observers are the IMF, UNDP, Sweden, Canada, and the United States. End Note.) Privately, donors explain the decision to withdraw was made all the less painless by the Ortega administration's focus on consolidating power and wealth, complete disregard for prior assistance models and existing programs, and determination to re-write the last 17 years of Nicaraguan history, falsely asserting that no progress was made on poverty reduction during that period.

...They React Publicly...

14. (C) An attitudinal shift within the broader donor community, including the multilateral donors, occurred when the Supreme Electoral Council (CSE) decided to disqualify two opposition parties, a move widely judged as purely political with no legal justification (Ref A). The Budget Support Group (BSG) and other European and multilateral donors met with representatives of one of the parties (MRS - Sandinista Renewal Movement) and the President of the National Assembly Judicial Commission Jose Pallais, in the days leading up to the CSE announcement, and with opposition leader Eduardo Montealegre in the days following. While most donors were reluctant to take drastic steps such as cutting assistance in response to the GON's actions, they exhibited a clear sense of frustration and anger, and a new awareness of how deeply the FSLN and its pact with Arnoldo Aleman has imbued every aspect of Nicaraguan life. The result was a strong public statement, signed by all bilateral and multilateral donors, including Japan, Taiwan, UNDP, and the World Bank, groups traditionally unwilling to criticize the government. The statement expressed the donors' concern with the closing of Nicaragua's democratic space and emphasized good governance and democracy as fundamental principles of all assistance agreements.

...And the Government Responds

15. (U) The response from high level members of the GON was immediate and vitriolic asserting that donors had no right to interfere or comment on domestic politics. President Ortega, playing on EU Ambassador Francesca Mosca's name (mosca means fly in Spanish), called donors "flies which land on trash;" that only provide Nicaragua with miniscule amounts of assistance. Vice-Foreign Minister Manuel Coronel Kautz, in a public meeting with donors on the CSE's case, used a vulgar colloquial expression comparing the donors to a "woman who is never satisfied." Vice-Foreign Minister for Foreign Assistance Valdrak Jaentschke was the most emphatic, claiming that donors have "done nothing positive in the country in the last 17 years" and that "if the donors say that there is no cooperation because we do not do something, we do not have a choice but to say, if you want to take it- take it, that is the final statement of dignity." He added that donors have the bad habit of "getting overly involved in internal issues" and "they are trying to do democracy and development in a way that has not worked." He also claimed donors were coordinating anti-Ortega lobbying activities by NGOs. Jaentschke closed saying that Europe "has a huge social debt with Latin America since the colonial times." (Note: Despite this strong rhetoric, President Ortega and his government were quite welcoming and calm during the visit of HHS Secretary Leavitt on June 25. End Note.)

Donors Next Steps

¶16. (SBU) Donors, through the Canadian Director of Cooperation Kerry Max) as chairman of the Donor's Group - and EU Ambassador Mosca, publicly stood by their statement and concerns. There were several follow-up meetings with the GON emphasizing the clear tie between an open democracy and assistance programs. Max highlighted that donors will be looking closely at the GON's actions regarding the upcoming license renewal for opposition television station Channel 2.

¶17. (C) Privately, bilateral donors are starting to make decisions about future funding. The Netherlands will not provide budget support in 2009, Finland will not either, DFID will not disburse its 2008 budget support funds, and the European Union has delayed finalizing some programs and is considering withdrawing budget support. Donors are also studying whether to re-channel budget support funds through other mechanisms or to withdraw it altogether. (Note: 2007 Budget Support was USD 80 million; USD 110 million was pledged for 2008. End Note.) Donors are reluctant to re-direct funds into programs with ministries given current problems with under-execution of projects. Re-directing funds to civil society is not an option for many donors due to funding regulations requiring GON approval. The likely result will be that Nicaragua loses the funds.

¶18. (C) Multilateral donors are more sanguine at the moment. During a meeting with the Ambassador, World Bank (WB) ResRep Joseph Owen stated that it is not in the WB's mandate to comment on democracy and governance; focusing instead on development programs that would take place irrespective of the government in power. He admitted that the IFIs and UN agencies tend to give the GON more benefit of the doubt than it deserves. Their objective is to keep a foot in the door, so they can help the GON "see the error of its ways." During a review of the BSG's fundamental principles, the multilateral donors were the most resistant to including in the final report any serious criticism of the GON's good governance and rule of law performance or any mention of the increasing role of the Citizen Power Councils (CPC), government-sponsored community level pressure groups. This does not mean, however, that they are not concerned by recent events. The WB is encountering problems with CPCs and is worried about an FSLN supported non-debt-payment movement developing in the northern parts of the country affecting a range of micro-credit lending institutions. It has frozen USD 20 million pending the results of the much delayed 2007 end of year IMF review. The IDB has recently brought in several speakers to discuss the importance of free markets and effective governance and regulation. Most importantly, the IFIs and UN agencies all signed on to the donor statement regarding the CSE decision.

Comment

¶19. (C) Interestingly, the European ambassadors are now admitting that our more dire, long held, more jaundiced view of Ortega's ambitions may be right after all. They were reluctant to criticize several early GON moves that affected the opposition. It took a blatant attack on two political parties and the hunger strike of a prominent former guerrilla (Ref A) to jolt them. The MRS's close ties to European social democratic parties doubtless made European governments especially sensitive to its plight. With donor assistance to Nicaragua accounting for almost 25% of its budget, it is perhaps a risky move by the GON to turn its guns on the EU and other donors. While Venezuelan assistance of USD 520 million does outstrip other donor assistance, that assistance is not reliable. The GON seems to have now realized that fact and the rhetoric has scaled back, but we do not believe Ortega is quite ready to forgive the donors' outbursts.

Bilateral Assistance Levels in Nicaragua

¶10. U) Below is a table of total bilateral donor assistance levels:
 (Source EU Blue Book and Embassies- USD millions)

Country	2007	2008
Spain	28.4	61.4
Denmark	39.4	43.0
European Commission	74.0	47.2
Germany	20.3	42.2
Netherlands	39.5	36.3
United States	37.5	35.7
Sweden	43.1	29.7
Finland	22.2	20.8
Luxembourg	13.2	16.9
Canada	17.0	14.0
Austria	8.9	8.0
United Kingdom (DFID)	5.2	7.7
Italy	6.5	3.6
France	3.3	